H.R. 5248, The Prevent Unfair Manipulation of Prices (PUMP) Act

Crude oil prices have exceeded the previous record set after Hurricane Katrina hit the Gulf Coast, reaching over $75 a barrel. Currently, the average price of a gallon of gas is $2.91 per gallon, 70 cents more than this time last year. As gas prices climb, more and more economists are beginning to look at the effect energy speculators have on the price of gas.

After Hurricane Katrina, supplies of gasoline may have been limited by the destruction of oil production and refining infrastructure in the Gulf region. However, there is a less tangible reason for current high gas prices.

As energy speculators base their investment decisions on the potential for future problems, such as U.S. relations with Iran, rather than actual market realities, they are significantly affecting oil and gas prices on the spot market. As panic about gas prices continues to build, there is the potential for speculators to take advantage of these fears to inflate crude oil prices beyond reasonable levels. This causes prices at the pump to skyrocket, even though current supplies may not warrant such a surge.

There are two types of speculation, market trading and "over-the-counter" (OTC) trading. Market trading, which takes place through the New York Mercantile Exchange (NYMEX), is self-regulated with oversight from the Commodity Futures Trading Commission (CFTC). The CFTC can monitor against the excessive inflation of prices by monitoring market action, and can respond to instances of market manipulation. OTC trading, on the other hand, is conducted off of the market, without any regulation or oversight. Because of this, the potential is greater for speculators to use this type of trading to manipulate the market, inflating oil and gas prices beyond reasonable levels.

Only about 25 to 35 percent of all energy commodities trading occurs on NYMEX. This means that up to 75 percent of energy speculation is unregulated, without any oversight from the federal government. Because OTC trading is unregulated, the exact volume of trades, and the legality of all of these trades, is unknown.

The PUMP Act would require off-market speculators to play by the same rules that speculators that participate in on-market trading already do. By providing transparency and oversight of off-market trading, this legislation would allow the CFTC to better monitor these deals to prevent market manipulation. The legislation would not eliminate legal OTC trading, it would merely require speculators to report their trades and be held accountable should it be determined they illegally manipulated energy markets. This increased oversight will improve confidence in the market, and will help eliminate the unreasonable inflation of crude oil prices, helping protect American consumers at the pump.

The PUMP Act would also increase penalties for market manipulation. The legislation would allow the CFTC to double the penalties for market manipulators, allowing civil penalties up to $1 million or triple the monetary gain, and increasing jail time to up to 10 years.

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